

# Prospects

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## The point of view

### Robinhood: FinTech at its worst

American actor Errol Flynn would no doubt have seen himself reflected in the **dashing garb of online broker Robinhood, which has attracted millions of users in the space of just a few years**. At first glance, and unlike Warner Brothers' Robin Hood star, finished off by a heart attack, **the FinTech firm's dazzling success looks unlikely to meet such a sudden and premature end. And yet...**

#### Alex Kearns, user account no. 06849753...

**Young American Alex Kearns took his own life on 11 June 2020.**

That was the very day when Robinhood ordered him to pay the staggering sum of \$170,000 to unwind option positions and restricted activity on his account. Alex made several attempts to contact the platform of which he was a customer, but all he got back from the shiny interface was radio silence. **The show was over for the young Kearns, a 20-year-old kid utterly forsaken by the online broker in the midst of a night of panic.**

**A world of pain awaited his devastated parents:** the knock at the door from the sheriff, come to tell them the news of Alex's death; the automated e-mail from Robinhood the following day informing him that he didn't owe them anything after all; and, above all, the discovery of Robinhood's virtually non-existent and highly unprofessional customer service operation.

#### How Robinhood went over to the dark side

Robinhood's customers number in the millions and tend to be young, with an average age of just 31. **Its order books are of great interest to high-frequency traders. Robinhood leverages them** to secure lower fees, enabling its users to play the markets cheaply. The result is a price revolution: the glorious low-cost economy!

**Except that the deal is less than clear.** Consumers knew nothing of Robinhood's true business model until the day the Securities and Exchange Commission – the US stock market watchdog – penalised the FinTech firm. In late 2020, it ordered Robinhood to pay **a \$65 million fine** in respect of its business practices between 2015 and... 2018. And that may not be the end of the firm's dealings with the SEC: in the middle of the GameStop saga, it popped up playing Robin Hood to hedge fund Citadel.

**This episode was of little consequence to the start-up:** funding round after funding round, it has continued to attract **investors**, of which it now has more than 90. It has also stayed in the good graces of leading investment banks such as JP Morgan, Morgan Stanley and Goldman Sachs, who have happily pushed it into debt while greedily eyeing a future IPO. **And it's not hard to see why.**

## Robinhood's phenomenal success... and marketing

Established in 2013, by 2016 the hypergrowth start-up already had a million users. By the end of 2019, its user base had grown to nearly 10 million. **Today, thanks to a 30% increase driven by Covid-19, Robinhood has 13 million users.**

Its sales strategy is particularly aggressive, highlighted by its (in)famous ad at the last Super Bowl and its **hard-hitting slogan, "We are all investors"**. But there's the rub: even while spending millions of dollars to sign up new customers, the platform has demonstrated its inability to effectively scale up its operations. **This was amply – and horrifyingly – illustrated in 2020.**

## Calling all units, red alert: the fox is in the henhouse!

**Unable to upgrade its infrastructure to keep up with its growth, Robinhood suffered no fewer than 70 service interruptions in 2020.** And these were not just technical hitches: they were interruptions that stopped users trading on the platform.

The biggest hit for its customers came on 2 and 3 March 2020, when the start-up completely shut down for nearly 48 hours right in the middle of a stock market rally.

In 2020, **the FinTech firm, whose valuation is higher than that of French bank Société Générale**, was less than fully operational 19% of the time – an eternity no-one seems to be bothered about apart from the Kearns, the Massachusetts authorities... and Soraya Bagheri.

## Here come the hackers

**In October 2020, press reports indicated that hackers had stolen information from 2,000 Robinhood user accounts.** Cited by Bloomberg, Robinhood customer Soraya Bagheri's story of what she went through is harrowing. **Yet it happened several months after Axel Kearns' suicide and two funding rounds that together raised over \$600 million.**

A whole day had gone by before Bagheri learned that 450 Moderna shares had been liquidated in her account and \$10,000 in withdrawals were pending. After alerting the online brokerage to this cyberattack, **she received a disarming e-mail from the company to the effect that it would investigate and respond within "a few weeks". Meanwhile, her \$10,000 disappeared.**

## Robinhood under fire from the Kearns and Massachusetts

For the parents of Alex Kearns, the situation is clear: if the platform had been able to respond to their son, he **wouldn't have taken his own life. The Kearns are thus suing Robinhood for serious acts of negligence.**

**Meanwhile, the State of Massachusetts has condemned the firm's practices, and particularly its use of gamification techniques** to entice young, inexperienced and unqualified investors to engage in virtually unlimited trading.

**The Boston regulator grabbed the headlines by quoting the example of an inexperienced user who had placed 12,748 trades in six months, making an average of 92 trades a day.** This state authority aims to protect the 490,000 customers in its jurisdiction who have together ploughed some \$1.6 billion of their savings into Robinhood. In a powerful signal, the State is amending its regulations to afford investors greater protection against online brokers and seeking to extend its audit powers.

## Conclusion: Robinhood's reputation has taken a severe beating

As well as the Kearns and the State of Massachusetts, there is also a 43,572-member class action organised on US social media platform Reddit under the name ClassActionRobinHood. **In the end, it may be class actions and followers of "F\*\*\* You Robinhood" communities popping up all over social media that hurt the start-up most.** It could well be that future short-selling activists are lurking in their ranks, waiting to bet on the online broker's demise while condemning the worst excesses of the FinTech movement.

In the meantime, will the FinTech ecosystem respond to the extraordinary failings of the Robinhood platform by firmly committing to **strengthen protection for users?**

Those FinTech firms that make this non-negotiable duty of protection a core part of their mission may escape the graveyard where unicorns go to die. The rest – those that are less attentive, less ethical and less responsible – will surely end up there. And there will be plenty of them. ■

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